PART I: BASIC PRINCIPLES (INHERENT POWERS)

CHAPTER 01 & 02

June 11 & 13, 2019

Taxation

$Taxation \\ Defined$

TAXATION is the <u>ACT OF LAYING A TAX</u>, i.e. the process or means by which the <u>SOVEREIGN</u>, through its <u>LAWMAKING BODY</u>, <u>RAISES</u> INCOME to defray the necessary expenses of government.

Purposes of Taxation



The **principal** (**primary**) **purpose** is to <u>raise</u> revenue for governmental needs. This is also called **Revenue Purpose**.



The **secondary purposes** of taxation are:

- 1. Compensatory Purposes
- To reduce excessive inequalities of wealth
- To maintain high level of employment
- To control inflation
- **2. Sumptuary or Regulatory Purpose** to implement the police power of the State to promote the general welfare

Theory and Basis of Taxation

The power of taxation proceeds upon the **THEORY** that the <u>existence of the government is a **necessity**, that it cannot continue without means to pay its expenses and that for this means it has a right to compel all its citizens and property within its limits to contribute.</u>

The BASIS is the <u>reciprocal duties of protection and</u> <u>support</u> between the State and its inhabitants. The State collects taxes from the subjects of taxation in order that it may be able to perform the functions of government. The citizens on the other hand, pays taxes in order that they may be secured in the enjoyment of the benefits of organized society (Benefits Received Theory).

- Taxes are the lifeblood of the Government and their prompt and certain availability are imperious (expecting obedience) need.
- Upon taxation depends the government's ability to serve the people for whose benefit taxes are collected.
- Manifestation of lifeblood theory:
 - Imposition of tax <u>even in the absence of Constitutional</u> <u>grant</u>.
 - Right to select objects of taxation.
 - No injunction to enjoin (or stop) tax collection.

Lifeblood Theory

Scope of the Power of Taxation

The power of taxation is:

Comprehensive

<u>U</u>nlimited

<u>P</u>lenary

Supreme

This power is, however, subject to **inherent** and **constitutional limitations**.

Characteristics (or Nature) of the State's Power to Tax



It is <u>inherent</u> in sovereignty, hence, it may be exercised although not expressly granted by the Constitution.



It is <u>legislative</u> in character, hence, only the legislature can impose taxes (high prerogative of sovereignty).



It is <u>subject to Constitutional and</u> <u>inherent limitations</u>, hence, it is not an absolute power that can be exercised by the legislature anyway it pleases.



LEVYING or **IMPOSITION** of tax which is a legislative act.



ASSESSMENT and **COLLECTION** of the tax levied which is essentially administrative in character.

Processes included or Embodied in the Term Taxation

Matters within the Competence of the Legislature to Determine





The **subject matter** or object to be taxed.



The **purpose** of the tax so long as it is a public purpose.



The **amount** or rate of the tax.



Manner or means of
collecting taxes.

Basic Principles of a Sound Tax System (Canons of Taxation)



FISCAL ADEQUACY

This means that the sources of revenue should be sufficient to meet the demands of public expenditures.



EQUALITY or THEORETICAL JUSTICE

This means that the tax burden should be proportionate to the taxpayer's ability to pay (ABILITY TO PAY PRINCIPLE).



ADMINISTRATIVE FEASIBILITY

This means that the laws should be capable of convenient, just and effective administration.

Inherent Powers of the State

Inherent Powers



TAXATION – the power by which the sovereign raises revenue to defray the necessary expenses of the government.



power of the State or those to whom the power has been delegated to take private property for public use upon paying the owners a just compensation to be ascertained according to law.



POLICE POWER – the power of the State to enact such laws in relation to persons and property that may promote **public** health, public morals, public safety and general welfare of the people.

Similarities Among the Three Inherent Powers

- They are inherent in the State;
- They exist independently of the Constitution;
- They constitute the three methods by which the State interferes with private rights and property;
- They are **legislative** in nature and character;
- Each presupposes an equivalent compensation.

Distinctions Among the Three Inherent Powers

	TAXATION	POLICE POWER	POWER OF EMINENT DOMAIN
a. As to Purpose	Support of government	Promote general welfare	Public purpose
b. As to Authority which exercises the power	Government only	Government only	Government, public service companies and public utilities
c. As to Persons Affected	Community or class of individuals	Community or class of individuals	Individual as owner of a particular property
d. As to Benefits Received	Equivalent of tax in the form of protection and benefit	No direct and immediate benefit, only such as may arise from the maintenance of a healthy economic standard of society	Market value of the property taken from him
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Distinctions Among the Three Inherent Powers

	TAXATION	POLICE POWER	POWER OF EMINENT DOMAIN
e. As to Effect	Taxes become part of public funds	No transfer of title, there is restraint on the injurious use of property	There is transfer of the right to property, either ownership or a lesser right
f. As to Amount of Imposition	No limit	Limited to the cost of the license and the necessary expenses of police surveillance and regulation	No imposition, the owner is paid the fair market value of his property
g. As to Relationship to the Non-Impairment of Obligations Clause of the Constitution	Inferior to the clause	Superior to the clause	Inferior to the clause

Distinctions Among the Three Inherent Powers

References

TX-1601: BASIC PRINCIPLES (INHERENT POWERS)

The Review School of Accountancy (ReSA):

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